



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE March 3, 2005

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on Shelby County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$15,920,316 for the year ended June 30, 2004, which included \$977,212 in tax credits from the state. The County forwarded \$10,485,248 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$5,435,068 of the local tax revenue to finance County operations. Other revenues included charges for service of \$546,479, operating grants, contributions and restricted interest of \$4,310,652, capital grants, contributions and restricted interest of \$596,777, tax increment financing of \$76,791, unrestricted investment earnings of \$47,432 and other general revenues of \$259,402.

Expenses for County operations totaled \$9,136,444. Expenses included \$3,336,669 for roads and transportation, \$1,700,196 for mental health and \$1,505,188 for public safety and legal services.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

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SHELBY COUNTY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

Table of Contents

		Page
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17
Governmental Fund Financial Statements:		
Balance Sheet	C	18-19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	24
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Funds	G	25
Notes to Financial Statements		26-38
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds		40-41
Budget to GAAP Reconciliation		42
Notes to Required Supplementary Information – Budgetary Reporting		43
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	46-47
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	48-49
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	50-51
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	52-53
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	5	54
Schedule of Expenditures of Federal Awards	6	56-57
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		59-60
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		63-64
Schedule of Findings and Questioned Costs		65-71
Staff		72

Shelby County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gayle Petersen	Board of Supervisors	Jan 2005
Richard Ferry	Board of Supervisors	Jan 2005
Roger Schmitz	Board of Supervisors	Jan 2007
Marsha Carter	County Auditor	Jan 2005
Kathy Stinn	County Treasurer	Jan 2007
Linda Jacobsen	County Recorder	Jan 2007
Gene Cavanaugh	County Sheriff	Jan 2005
Jeffrey L. Larson	County Attorney	Jan 2007
Robert J. Heyderhoff	County Assessor	Jan 2010

Shelby County



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Independent Auditor's Report

To the Officials of Shelby County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Shelby County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Shelby County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

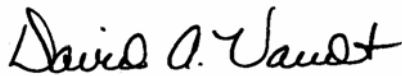
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Shelby County at June 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12 to the financial statements, during the year ended June 30, 2004, Shelby County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

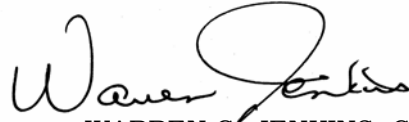
In accordance with Government Auditing Standards, we have also issued our reports dated December 16, 2004 on our consideration of Shelby County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 40 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Shelby County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shelby County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Shelby County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Governmental fund revenues increased 6%, or approximately \$679,000, from fiscal 2003 to fiscal 2004. Property tax and other county tax decreased 2%, or approximately \$81,000.
- Governmental fund expenditures increased 14%, or approximately \$1,287,000. Roads and transportation expenditures decreased by approximately \$23,000, capital projects expenditures increased approximately \$754,000 and debt service expenditures increased approximately \$394,000.
- Net assets increased 27%, or approximately \$2,136,000, from June 30, 2003 to June 30, 2004.
- During fiscal 2004, the County was able to do an early pay-off of approximately \$493,000 in bank loans using \$195,000 of General Fund reserves. This saved the County taxpayers \$31,000 in interest costs for fiscal 2004 alone.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Shelby County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Shelby County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Shelby County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has two kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Debt Service Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911 surcharge, emergency management services, empowerment and the County Assessor, to name a few.

The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis below shows the County's total net assets at June 30, 2004.

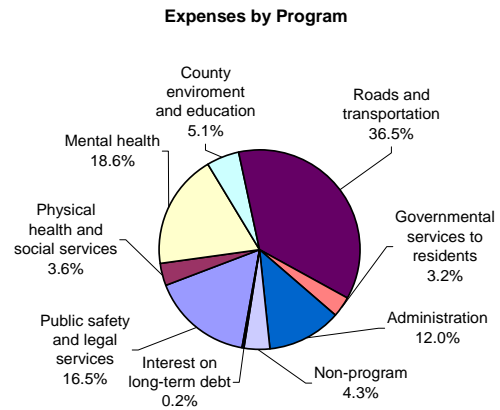
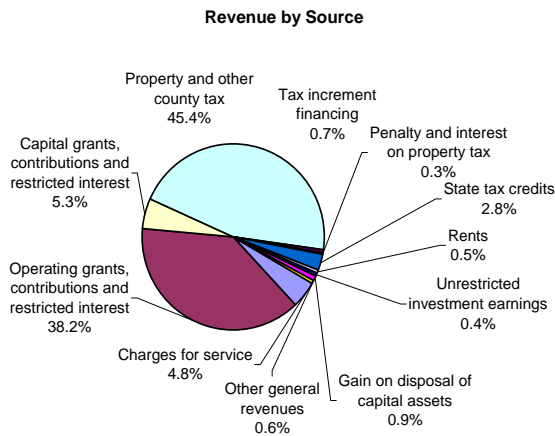
Net Assets of Governmental Activities (Expressed in Thousands)	
Current and other assets	\$ 9,659
Capital assets	5,913
Total assets	<u>15,572</u>
Long-term liabilities	408
Other liabilities	4,972
Total liabilities	<u>5,380</u>
Net assets:	
Invested in capital assets, net of related debt	5,638
Restricted	3,726
Unrestricted	828
Total net assets	<u>\$ 10,192</u>

Net assets of Shelby County's governmental activities increased by \$2.1 million or 27%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements are reported at approximately \$828,000 at June 30, 2004.

Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

Revenues:	
Program revenues:	
Charges for service	\$ 546
Operating grants, contributions and restricted interest	4,311
Capital grants, contributions and restricted interest	597
General revenues:	
Property and other county tax	5,116
Tax increment financing	77
Penalty and interest on property tax	33
State tax credits	319
Rents	56
Unrestricted investment earnings	47
Gain on disposal of capital assets	106
Other general revenues	64
Total revenues	<u>11,272</u>
Program expenses:	
Public safety and legal services	1,505
Physical health and social services	331
Mental health	1,700
County environment and education	469
Roads and transportation	3,337
Governmental services to residents	293
Administration	1,092
Non-program	394
Interest on long-term debt	15
Total expenses	<u>9,136</u>
Increase in net assets	2,136
Net assets beginning of year, as restated	<u>8,056</u>
Net assets end of year	<u><u>\$ 10,192</u></u>



The County decreased property tax rates for FY04 by an average of 2.8%. The County decreased the General Fund property tax levy rate by \$.40226 per \$1000 of property valuation. The Mental Health Fund property tax levy rate decreased by \$.00816 per \$1000 of property valuation. The Rural Services property tax levy rate was decreased by \$.26196 per \$1000 of property valuation. The Debt Service property tax levy rate was increased by \$.34422 to accommodate the early pay-off of bank loans. This was accomplished with an \$89,291 decrease in tax asking for FY04.

INDIVIDUAL MAJOR FUND ANALYSIS

The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund, the operating fund for Shelby County, ended FY04 with a fund balance totaling \$981,976. This was a decrease from FY03 of approximately \$122,000. Part of the decrease was due to using \$195,000 of General Fund reserves to help pay off \$195,000 in bank loans. Approximately \$90,000 of this balance has been earmarked for the future purchase of new voting equipment as required by the Help America Vote Act.
- The Mental Health Fund balance at year end increased by approximately \$171,000 over the prior year. This was due to the County receiving Community Service and Growth Distribution dollars from the State and additional funding due to programs like the MR Waiver Program.
- The Rural Services Fund ended FY04 with a fund balance of \$152,298, holding fairly level when compared to the ending balance for FY03.
- The Secondary Roads Fund ended FY04 with a fund balance of \$2,958,121. The Secondary Roads Department maintains 960 miles of secondary roads within the County. It also has 250 bridges that exceed 20 feet in length on this system. Many of these bridges are older and have a reduced load limit. The County is on an extensive program to upgrade these bridges in order to eliminate the problems caused by less than legal loads. The useful life of the bridges is approximately 60 years. In order to break even, the County has to replace a minimum of 4 bridges per year. Currently, we are replacing them at the rate of about 5 per year in order to make the road systems legal for modern loads. The County is actively pursuing the closing of bridges and roads, where possible, to save tax dollars in maintenance.
- The Debt Service Fund ended FY04 with a fund balance of \$2,968, holding level when compared to the ending balance for FY03.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds except Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on a cash basis. Shelby County amended its budget June 1, 2004 to cover a \$500,000 flow-through grant for a new Early Childhood Development Center being built adjacent to one of Harlan's elementary school buildings, an early payoff of bank loans in the amount of \$195,000, a \$277,500 increase in Secondary Roads capital projects expenditures and unanticipated expenditures in various other County Departments for a total FY04 budget amendment of \$1,137,216, which was offset by \$526,380 in unbudgeted revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Shelby County had approximately \$5.9 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$1,022,000 million over last year.

Capital Assets of Governmental Activities at Year End	
(Expressed in Thousands)	
Land	\$ 331
Construction in progress	758
Buildings and improvements	2,334
Equipment and vehicles	2,256
Infrastructure	234
Total	<u>\$ 5,913</u>

The County had depreciation expense of \$427,000 in FY04 and total accumulated depreciation of \$4,692,117 at June 30, 2004. The County's FY04 capital budget included \$955,000 for capital projects, principally for road construction. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004, Shelby County had approximately \$274,000 in outstanding debt compared to approximately \$847,000 at June 30, 2003, as shown below.

Outstanding Debt of Governmental Activities at Year-End	
(Expressed in Thousands)	
Capital lease/installment purchase agreements	\$ 19
Capital loan notes	255
Total	<u>\$ 274</u>

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property in the County. Shelby County's outstanding general obligation debt is significantly below its constitutional debt limit of \$2.5 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Shelby County's officials considered many factors when setting the fiscal year 2005 budget, tax rates and the fees that will be charged for various County activities. One of those factors is the economy. Unemployment in the County in June 2004 was 3.9%. This compares with the State's unemployment rate of 4.3% and the national rate of 5.6% for the same period.

Shelby County had a 25% decrease in agricultural property value for this budget year. Our total taxable valuation dropped approximately \$88,000,000. This posed a possibility of a serious shift of the tax burden from agriculture to residential and commercial property owners. The Board did not want to put additional pressure on Shelby County businesses in these tough economic times.

There continues to be some uncertainty regarding reimbursements for certain property tax credits from the State of Iowa. This uncertainty makes budgeting revenues for the County a difficult task. Another major concern in budgeting is the unknown, but anticipated, increases in health insurance costs for employees.

These concerns were taken into account when adopting the FY05 budget. Budgeted revenues for the General and Rural Services Funds stayed fairly level from FY04. With the decrease in valuation, the tax rates would have to increase to raise the same amount of taxes as FY04. In order to offset some of this increase, budgeted expenditures in the General and Rural Services Funds were decreased by approximately \$93,000 and our General and Rural Services reserves were decreased by \$190,840. Existing fund balances may be necessary to cover increases in health insurance costs for employees if they are higher than anticipated and to cover any unforeseen expenditures throughout FY05. The final FY05 budget was adopted with a total tax rate increase of \$1.07425, but a total tax asking decrease of \$590,810.

At the end of FY04, the County was in the process of bonding to finance the Western Ventures Sewer Project, which is a project to connect the Western Ventures Business Park to the City of Harlan's sewer system, to accommodate a new microwave bacon plant and all the other existing businesses in the park.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Shelby County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marsha J. Carter, Shelby County Auditor, 612 Court St., Harlan, Iowa 51537.

Shelby County

Basic Financial Statements

Shelby County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 3,849,451
Receivables:	
Property tax:	
Delinquent	64,403
Succeeding year	4,450,000
Accounts	6,455
Accrued interest	10,447
Due from other governments	538,598
Inventories	700,719
Prepaid insurance	38,962
Capital assets (net of accumulated depreciation)	<u>5,912,708</u>
Total assets	<u>15,571,743</u>
Liabilities	
Accounts payable	311,109
Accrued interest payable	2,206
Salaries and benefits payable	107,854
Due to other governments	100,938
Deferred revenue:	
Succeeding year property tax	4,450,000
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease/installment purchase agreements	10,098
Capital loan notes	45,000
Compensated absences	133,580
Portion due or payable after one year:	
Capital lease/installment purchase agreements	9,309
Capital loan notes	<u>210,000</u>
Total liabilities	<u>5,380,094</u>
Net Assets	
Invested in capital assets, net of related debt	5,638,302
Restricted for:	
Supplemental levy purposes	427,824
Mental health purposes	421,380
Secondary roads purposes	2,174,166
Debt service	1,396
Other purposes	700,949
Unrestricted	<u>827,632</u>
Total net assets	<u>\$ 10,191,649</u>

See notes to financial statements.

Shelby County

Statement of Activities

Year ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest
Functions / Programs:					
Governmental activities:					
Public safety and legal services	\$ 1,505,188	63,411	35,168	-	(1,406,609)
Physical health and social services	331,258	151,146	55,193	-	(124,919)
Mental health	1,700,196	-	988,311	-	(711,885)
County environment and education	468,960	8,081	25,554	-	(435,325)
Roads and transportation	3,336,669	67,664	2,784,999	596,777	112,771
Governmental services to residents	292,939	231,357	15,485	-	(46,097)
Administration	1,091,762	24,820	24,000	-	(1,042,942)
Non-program	394,389	-	381,942	-	(12,447)
Interest on long-term debt	15,083	-	-	-	(15,083)
Total	\$ 9,136,444	546,479	4,310,652	596,777	(3,682,536)
General Revenues:					
Property and other county tax levied for:					
General purposes					4,773,708
Debt service					342,122
Tax increment financing					76,791
Penalty and interest on property tax					33,092
State tax credits					319,238
Rents					56,080
Unrestricted investment earnings					47,432
Gain on disposal of capital assets					105,877
Miscellaneous					64,353
Total general revenues					5,818,693
Change in net assets					2,136,157
Net assets beginning of year, as restated					8,055,492
Net assets end of year					\$ 10,191,649

See notes to financial statements.

Shelby County
Balance Sheet
Governmental Funds

June 30, 2004

	Special Revenue		
	General	Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 1,017,419	544,211	158,227
Receivables:			
Property tax:			
Delinquent	30,564	10,797	22,408
Succeeding year	2,327,000	822,000	1,248,000
Accounts	5,846	-	-
Accrued interest	10,447	-	-
Due from other funds	479	-	3,494
Due from other governments	59,893	24,531	-
Inventories	-	-	-
Prepaid insurance	38,962	-	-
Total assets	\$ 3,490,610	1,401,539	1,432,129
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 93,215	50,360	5,497
Salaries and benefits payable	52,676	5,427	3,926
Due to other funds	1,891	-	-
Due to other governments	3,289	96,159	-
Deferred revenue:			
Succeeding year property tax	2,327,000	822,000	1,248,000
Other	30,563	10,797	22,408
Total liabilities	2,508,634	984,743	1,279,831
Fund balances:			
Reserved for:			
Inventories	-	-	-
Supplemental levy purposes	411,096	-	16,728
Unreserved, reported in:			
General fund	570,880	-	-
Special revenue funds	-	416,796	135,570
Debt service fund	-	-	-
Total fund balances	981,976	416,796	152,298
Total liabilities and fund balances	\$ 3,490,610	1,401,539	1,432,129

See notes to financial statements.

Secondary Roads	Debt Service	Nonmajor Special Revenue	Total
2,017,954	2,968	108,672	3,849,451
-	634	-	64,403
-	53,000	-	4,450,000
482	-	127	6,455
-	-	-	10,447
1,891	-	-	5,864
439,837	-	14,337	538,598
700,719	-	-	700,719
-	-	-	38,962
3,160,883	56,602	123,136	9,664,899
155,746	-	6,291	311,109
45,526	-	299	107,854
-	-	3,973	5,864
1,490	-	-	100,938
-	53,000	-	4,450,000
-	634	-	64,402
202,762	53,634	10,563	5,040,167
700,719	-	-	700,719
-	-	-	427,824
-	-	-	570,880
2,257,402	-	112,573	2,922,341
-	2,968	-	2,968
2,958,121	2,968	112,573	4,624,732
3,160,883	56,602	123,136	9,664,899

Shelby County

Shelby County

Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets

June 30, 2004

Total governmental fund balances (page 19) \$ 4,624,732

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,604,825 and the accumulated depreciation is \$4,692,117 5,912,708

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 64,402

Long-term liabilities, including capital lease/installment purchase agreements payable, capital loan notes payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (410,193)

Net assets of governmental activities (page 16) \$ 10,191,649

See notes to financial statements.

Shelby County

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,490,257	831,269	1,402,023	-
Tax increment financing	76,791	-	-	-
Interest and penalty on property tax	33,092	-	-	-
Intergovernmental	724,427	1,042,266	82,859	3,381,776
Licenses and permits	144,481	-	-	1,905
Charges for service	269,296	-	-	-
Use of money and property	92,834	-	10,721	-
Miscellaneous	48,566	6,205	136	79,590
Total revenues	<u>3,879,744</u>	<u>1,879,740</u>	<u>1,495,739</u>	<u>3,463,271</u>
Expenditures:				
Operating:				
Public safety and legal services	1,363,987	-	37,916	-
Physical health and social services	327,235	-	-	-
Mental health	-	1,708,411	-	-
County environment and education	315,066	-	117,525	-
Roads and transportation	6,482	-	286,502	3,053,346
Governmental services to residents	287,299	-	369	-
Administration	923,494	-	6,445	-
Non-program	360,966	-	-	-
Debt service	194,684	-	-	-
Capital projects	144,311	-	31,044	1,026,484
Total expenditures	<u>3,923,524</u>	<u>1,708,411</u>	<u>479,801</u>	<u>4,079,830</u>
Excess (deficiency) of revenues over (under) expenditures	(43,780)	171,329	1,015,938	(616,559)
Other financing sources (uses):				
Sale of capital assets	-	-	-	9,500
Operating transfers in	-	-	-	1,094,820
Operating transfers out	(78,369)	-	(1,013,926)	-
Total other financing sources (uses)	<u>(78,369)</u>	<u>-</u>	<u>(1,013,926)</u>	<u>1,104,320</u>
Net change in fund balances	(122,149)	171,329	2,012	487,761
Fund balances beginning of year, as restated	1,104,125	245,467	150,286	2,470,360
Fund balances end of year	<u>\$ 981,976</u>	<u>416,796</u>	<u>152,298</u>	<u>2,958,121</u>

See notes to financial statements.

Debt Service	Nonmajor Special Revenue	Total
344,220	-	5,067,769
-	-	76,791
-	-	33,092
21,392	10,090	5,262,810
-	-	146,386
-	40,477	309,773
-	210	103,765
-	14,361	148,858
<u>365,612</u>	<u>65,138</u>	<u>11,149,244</u>
-	12,290	1,414,193
-	-	327,235
-	-	1,708,411
-	1,735	434,326
-	-	3,346,330
-	4,396	292,064
-	2	929,941
-	33,424	394,390
365,675	6,145	566,504
-	-	1,201,839
<u>365,675</u>	<u>57,992</u>	<u>10,615,233</u>
(63)	7,146	534,011
-	-	9,500
-	-	1,094,820
-	(2,525)	(1,094,820)
-	(2,525)	9,500
(63)	4,621	543,511
<u>3,031</u>	<u>107,952</u>	<u>4,081,221</u>
<u>2,968</u>	<u>112,573</u>	<u>4,624,732</u>

Shelby County

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 23) \$ 543,511

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 982,561	
Capital assets contributed by the Iowa Department of Transportation	596,777	
Depreciation expense	(427,416)	1,151,922

In the Statement of Activities, the gain on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (129,624)

Because some property tax will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds. 17,733

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 572,228

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(19,752)	
Interest on long-term debt	139	(19,613)

Change in net assets of governmental activities (page 17) \$ 2,136,157

See notes to financial statements.

Shelby County
Statement of Fiduciary Assets and Liabilities
Agency Funds

June 30, 2004

Assets

Cash and pooled investments:	
County Treasurer	\$ 1,293,136
Other County officials	11,193
Shelby County Solid Waste Agency	333,000
Receivables:	
Property tax:	
Delinquent	94,791
Succeeding year	9,865,000
Accounts	17,411
Due from other governments	70,390
Prepaid insurance	10,538
Total assets	<u>11,695,459</u>

Liabilities

Accounts payable	155,320
Salaries and benefits payable	18,088
Due to other governments	11,504,544
Compensated absences	17,507
Total liabilities	<u>11,695,459</u>

Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

Shelby County

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Shelby County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Shelby County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission, County Joint E911 Service Board, Monona/Harrison/Shelby County Empowerment Area and Shelby County Area Solid Waste Agency. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

The County also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa. West Central Iowa Sheltered Workshop (WESCO), Southwest Iowa Planning Council (SWIPCO), Southwest Iowa Juvenile Detention Center and Shelby County Ambulance Commission.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary roads construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long-term debt.

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash and Pooled Investments – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at

historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	10 - 65
Equipment and vehicles	3 - 20

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund

financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Conservation Land Acquisition	\$ 479
Special Revenue: Secondary Roads Rural Services	General Special Revenue: Conservation Land Acquisition	1,891 3,494
Total		<u>\$ 5,864</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General Special Revenue: Rural Services Special Revenue: Insurance Reimbursement	\$ 78,369 1,013,926 2,525
Total		<u>\$ 1,094,820</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated, note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 330,775	-	-	330,775
Construction in progress	-	757,702	-	757,702
Total capital assets not being depreciated	<u>330,775</u>	<u>757,702</u>	<u>-</u>	<u>1,088,477</u>
Capital assets being depreciated:				
Buildings	3,516,352	7,562	-	3,523,914
Equipment and vehicles	5,503,432	577,885	(325,072)	5,756,245
Infrastructure, road network	-	236,189	-	236,189
Total capital assets being depreciated	<u>9,019,784</u>	<u>821,636</u>	<u>(325,072)</u>	<u>9,516,348</u>
Less accumulated depreciation for:				
Buildings	1,120,181	69,688	-	1,189,869
Equipment and vehicles	3,339,968	355,635	(195,448)	3,500,155
Infrastructure, road network	-	2,093	-	2,093
Total accumulated depreciation	<u>4,460,149</u>	<u>427,416</u>	<u>(195,448)</u>	<u>4,692,117</u>
Total capital assets being depreciated, net	<u>4,559,635</u>	<u>394,220</u>	<u>(129,624)</u>	<u>4,824,231</u>
Governmental activities capital assets, net	<u>\$ 4,890,410</u>	<u>1,151,922</u>	<u>(129,624)</u>	<u>5,912,708</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 81,537
Physical health and social services	4,759
Mental health	1,070
County environment and education	26,077
Roads and transportation	264,383
Governmental services to residents	<u>49,590</u>
Total depreciation expense - governmental activities	<u>\$ 427,416</u>

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 3,289
Special Revenue:		
Mental Health	Services	96,159
Secondary Roads	Services	1,490
		<u>97,649</u>
Total for governmental funds		<u>\$ 100,938</u>
Agency:		
County Assessor	Collections	\$ 253,963
Schools		5,876,261
Community Colleges		308,089
Corporations		3,066,206
Auto License and Use Tax		231,492
All other		1,768,533
Total for agency funds		<u>\$ 11,504,544</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Capital Lease Purchase Agreement	Installment Purchase Agreements	Capital Loan Notes	Bank Loans	Compen- sated Absences	Total
Balance beginning of year, as restated	\$ 10,484	43,038	300,000	493,113	113,828	960,463
Increases	-	-	-	-	141,672	141,672
Decreases	5,040	29,075	45,000	493,113	121,920	694,148
Balance end of year	<u>\$ 5,444</u>	<u>13,963</u>	<u>255,000</u>	<u>-</u>	<u>133,580</u>	<u>407,987</u>
Due within one year	\$ 5,444	4,654	45,000	-	133,580	188,678

The July 1, 2003 long-term liabilities for governmental activities has been restated as follows:

Balance June 30, 2003, as previously reported \$ 926,354

Compensated absences were increased due to the implementation of Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

34,109

Balance July 1, 2003, as restated

\$ 960,463

Capital Lease Purchase Agreement

The County has entered into a capital lease purchase agreement for a tractor with loader. The following is a schedule of the future minimum lease payments, including interest of 5.25% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2004:

<u>Year ending June 30,</u>	<u>Total</u>
2005	\$ 5,880
Less amount representing interest	<u>(436)</u>
Present value of net minimum lease payments	<u>\$ 5,444</u>

Payments made under this capital lease purchase agreement during the year ended June 30, 2004 totaled \$5,880.

Installment Purchase Agreements

The County has entered into installment purchase agreements to finance the acquisition of a 2003 Ford Truck, a 1999 Ford Truck and a 1998 D4C Dozer. The following is a schedule of the future minimum lease payments, including interest ranging from 6.5% to 9% per annum, and the present value of future installment purchase agreement payments under the agreements in effect at June 30, 2004:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 4,654	1,099	5,753
2006	4,654	1,099	5,753
2007	4,655	1,098	5,753
Total	<u>\$ 13,963</u>	<u>3,296</u>	<u>17,259</u>

Payments under installment purchase agreements for the year ended June 30, 2004 totaled \$34,116.

Capital Loan Notes

In June 1999, the County issued \$465,000 in general obligation essential corporate purpose capital loan notes to fund improvements to the courthouse and annex buildings. The notes are payable from a continuing annual levy of taxes against all taxable property of the County. A summary of the County's June 30, 2004 general obligation essential corporate purpose capital loan notes is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.35 %	\$ 45,000	11,440	56,440
2006	4.40	50,000	9,483	59,483
2007	4.50	50,000	7,282	57,282
2008	4.55	55,000	5,032	60,032
2009	4.60	55,000	2,530	57,530
Total		\$ 255,000	35,767	290,767

Bank Loans

During the year ended June 30, 2004, final payments totaling \$501,684, including interest, were paid on three separate bank loans.

(8) Hospital Revenue Capital Loan Notes

The County has issued \$2,200,000 of hospital revenue capital loan notes pursuant to Chapters 331.402(3) and 331.461(1)(d) of the Code of Iowa. The notes and related interest are payable solely out of the net earnings of the Hospital and do not constitute liabilities of the County. Accordingly, the County does not record any transactions related to the notes.

(9) Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$186,542, \$184,963 and \$171,657, respectively, equal to the required contributions for each year.

(10) Risk Management

Shelby County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's contributions to the Pool for the year ended June 30, 2004 were \$92,803.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Construction Commitment

During the year ended June 30, 2004, the County entered into two agreements for bridge construction and roadway paving for \$445,334 and \$525,956, respectively. As of June 30, 2004, costs of \$379,307 and \$366,665 had been incurred against each project, respectively. The remaining \$66,027 and \$159,291 will be paid as work on the projects progress.

(12) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	<u>Amount</u>
Net assets June 30, 2003, as previously reported	\$ 4,047,112
GASB Interpretation 6 adjustments	<u>34,109</u>
Net assets July 1, 2003, as restated for governmental funds	4,081,221
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$4,460,149	4,890,410
Long-term liabilities	(962,808)
Deferral of long-term assets	<u>46,669</u>
Net assets July 1, 2003, as restated	<u>\$ 8,055,492</u>

Required Supplementary Information

Shelby County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2004

	Actual	Budgeted Amounts	
		Original	Final
Receipts:			
Property and other county tax	\$ 5,080,355	5,131,967	5,131,967
Interest and penalty on property tax	33,092	18,050	18,050
Intergovernmental	5,077,038	4,559,814	5,080,806
Licenses and permits	157,010	155,820	155,820
Charges for service	279,368	211,645	214,383
Use of money and property	92,984	108,150	108,150
Miscellaneous	150,530	76,369	79,019
Total receipts	10,870,377	10,261,815	10,788,195
Disbursements:			
Public safety and legal services	1,391,551	1,405,328	1,430,328
Physical health and social services	321,855	355,674	355,674
Mental health	1,684,079	1,741,202	1,741,202
County environment and education	416,035	417,090	432,391
Roads and transportation	3,266,097	3,860,769	3,860,769
Governmental services to residents	286,398	311,494	311,494
Administration	951,681	977,867	1,002,167
Non-program	391,257	4,381	554,381
Debt service	560,359	365,898	560,898
Capital projects	1,089,411	1,175,700	1,503,315
Total disbursements	10,358,723	10,615,403	11,752,619
Excess (deficiency) of receipts over (under) disbursements	511,654	(353,588)	(964,424)
Other financing uses, net	(225,000)	-	-
Excess (deficiency) of receipts over (under) disbursements and other financing uses	286,654	(353,588)	964,424
Balance beginning of year	3,433,471	2,530,600	2,530,600
Balance end of year	\$ 3,720,125	2,177,012	3,495,024

See accompanying independent auditor's report.

Final to Actual Variance
(51,612)
15,042
(3,768)
1,190
64,985
(15,166)
71,511
82,182
38,777
33,819
57,123
16,356
594,672
25,096
50,486
163,124
539
413,904
1,393,896
1,476,078
(225,000)
1,251,078
902,871
2,153,949

Shelby County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 10,870,377	278,867	11,149,244
Expenditures	10,358,723	256,510	10,615,233
Net	511,654	22,357	534,011
Other financing sources (uses), net	(225,000)	234,500	9,500
Beginning fund balances	3,433,471	647,750	4,081,221
Ending fund balances	\$ 3,720,125	904,607	4,624,732

See accompanying independent auditor's report.

Shelby County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Debt Service Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$1,137,216. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted by function. However, certain departmental disbursements exceeded the amounts appropriated.

Shelby County

Other Supplementary Information

Shelby County
 Combining Balance Sheet
 Nonmajor Special Revenue Funds

June 30, 2004

	Resource Enhance- ment and Protection	County Recorder's Electronic Transaction Fee	Conservation Land Acqui- sition
Assets			
Cash and pooled investments	\$ 9,300	22,734	4,276
Accounts receivable	-	-	-
Due from other governments	-	14,196	141
Total assets	\$ 9,300	36,930	4,417
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ -	-	-
Salaries and benefits payable	-	-	-
Due to other funds	-	-	3,973
Total liabilities	-	-	3,973
Fund equity:			
Unreserved fund balances	9,300	36,930	444
Total liabilities and fund equity	\$ 9,300	36,930	4,417

See accompanying independent auditor's report.

K-9	Flood and Erosion	Insurance Reimbursement	County Recorder's Records Management	Drug Forfeiture	Commis- sary	Total
1,665	5,071	23,594	15,375	19,825	6,832	108,672
-	-	-	-	-	127	127
-	-	-	-	-	-	14,337
1,665	5,071	23,594	15,375	19,825	6,959	123,136
19	75	4,374	-	-	1,823	6,291
-	299	-	-	-	-	299
-	-	-	-	-	-	3,973
19	374	4,374	-	-	1,823	10,563
1,646	4,697	19,220	15,375	19,825	5,136	112,573
1,665	5,071	23,594	15,375	19,825	6,959	123,136

Shelby County

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Resource Enhance- ment and Protection	County Recorder's Electronic Transaction Fee	Conservation Land Acqui- sition
Revenues:			
Intergovernmental	\$ 9,948	-	142
Charges for service	-	36,885	-
Use of money and property	7	45	11
Miscellaneous	-	-	4,297
Total revenues	<u>9,955</u>	<u>36,930</u>	<u>4,450</u>
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	992	-	-
Governmental services to residents	-	-	-
Administration	-	-	-
Non-program	-	-	-
Capital projects	-	-	6,145
Total expenditures	<u>992</u>	<u>-</u>	<u>6,145</u>
Excess (deficiency) of revenues over (under) expenditures	8,963	36,930	(1,695)
Other financing uses:			
Operating transfers out	-	-	-
Excess of revenues over (under) expenditures and other financing uses	8,963	36,930	(1,695)
Fund balances beginning of year	337	-	2,139
Fund balances end of year	<u>\$ 9,300</u>	<u>36,930</u>	<u>444</u>

See accompanying independent auditor's report.

K-9	Flood and Erosion	Insurance Reimbursement	County Recorder's Records Management	Drug Forfeiture	Commis- sary	Total
-	-	-	-	-	-	10,090
-	-	-	3,592	-	-	40,477
7	-	-	66	74	-	210
-	-	-	-	1,417	8,647	14,361
7	-	-	3,658	1,491	8,647	65,138
699	-	-	-	3,425	8,166	12,290
-	743	-	-	-	-	1,735
-	-	-	4,396	-	-	4,396
-	2	-	-	-	-	2
-	-	33,424	-	-	-	33,424
-	-	-	-	-	-	6,145
699	745	33,424	4,396	3,425	8,166	57,992
(692)	(745)	(33,424)	(738)	(1,934)	481	7,146
-	-	(2,525)	-	-	-	(2,525)
(692)	(745)	(35,949)	(738)	(1,934)	481	4,621
2,338	5,442	55,169	16,113	21,759	4,655	107,952
1,646	4,697	19,220	15,375	19,825	5,136	112,573

Shelby County
 Combining Schedule of Fiduciary Assets and Liabilities
 Agency Funds

June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets				
Cash and pooled investments:				
County Treasurer	\$ -	79	68,990	113,086
Other county officials	11,193	-	-	-
Shelby County Solid Waste Agency	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	1,463	2,456	75,175
Succeeding year	-	111,000	187,000	5,688,000
Accounts	-	-	-	-
Due from other governments	-	-	-	-
Prepaid insurance	-	-	-	-
Total assets	\$ 11,193	112,542	258,446	5,876,261
Liabilities				
Accounts payable	\$ 200	-	70	-
Salaries and benefits payable	-	-	4,413	-
Due to other governments	10,993	112,542	253,963	5,876,261
Compensated absences	-	-	-	-
Total liabilities	\$ 11,193	112,542	258,446	5,876,261

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
6,224	56,659	2,803	231,492	813,803	1,293,136
-	-	-	-	-	11,193
-	-	-	-	333,000	333,000
3,865	3,547	3,121	-	5,164	94,791
298,000	3,006,000	183,000	-	392,000	9,865,000
-	-	-	-	17,411	17,411
-	-	-	-	70,390	70,390
-	-	-	-	10,538	10,538
308,089	3,066,206	188,924	231,492	1,642,306	11,695,459
-	-	-	-	155,050	155,320
-	-	-	-	13,675	18,088
308,089	3,066,206	188,924	231,492	1,456,074	11,504,544
-	-	-	-	17,507	17,507
308,089	3,066,206	188,924	231,492	1,642,306	11,695,459

Shelby County
 Combining Schedule of Changes in Fiduciary Assets and Liabilities
 Agency Funds

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 49,826	125,277	251,916	6,603,269
Additions:				
Property and other county tax	-	109,351	188,692	5,705,405
E911 surcharge	-	-	-	-
State tax credits	-	7,919	12,061	413,200
Office fees and collections	231,105	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	89,271	-	-	-
Miscellaneous	-	-	271	-
Total additions	320,376	117,270	201,024	6,118,605
Deductions:				
Agency remittances:				
To other funds	172,298	-	-	-
To other governments	93,619	130,005	194,494	6,845,613
Trusts paid out	93,092	-	-	-
Total deductions	359,009	130,005	194,494	6,845,613
Balances end of year	\$ 11,193	112,542	258,446	5,876,261

See accompanying independent auditor's report.

Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
362,108	3,019,108	188,187	232,110	1,475,410	12,307,211
298,971	2,963,028	168,869	-	392,958	9,827,274
-	-	-	-	121,609	121,609
22,755	163,107	9,748	-	29,184	657,974
-	-	-	-	-	231,105
-	-	-	2,911,160	117	2,911,277
-	-	-	-	11,391	11,391
-	-	-	-	-	89,271
-	-	-	-	1,712,400	1,712,671
321,726	3,126,135	178,617	2,911,160	2,267,659	15,562,572
-	-	-	106,461	-	278,759
375,745	3,079,037	177,880	2,805,317	2,100,763	15,802,473
-	-	-	-	-	93,092
375,745	3,079,037	177,880	2,911,778	2,100,763	16,174,324
308,089	3,066,206	188,924	231,492	1,642,306	11,695,459

Schedule 5

Shelby County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property and other county tax	\$ 5,067,769	5,148,294	5,054,419	4,261,202
Tax increment financing	76,791	13,467	10,834	5,068
Interest and penalty on property tax	33,092	31,318	30,593	23,747
Intergovernmental	5,262,810	4,597,199	4,685,112	4,573,516
Licenses and permits	146,386	155,428	167,189	156,631
Charges for service	309,773	259,749	207,932	178,740
Use of money and property	103,765	107,014	146,027	207,490
Miscellaneous	148,858	157,358	178,701	158,851
Total	\$ 11,149,244	10,469,827	10,480,807	9,565,245
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,414,193	1,412,643	1,320,652	1,225,741
Physical health and social services	327,235	309,525	313,999	302,710
Mental health	1,708,411	1,722,413	1,693,340	1,751,263
County environment and education	434,326	474,704	456,852	598,966
Roads and transportation	3,346,330	3,369,496	3,450,517	4,054,152
Governmental services to residents	292,064	298,686	307,206	273,619
Administration	929,941	948,414	928,139	934,196
Non-program	394,390	172,125	91,118	170,100
Debt service	566,504	172,834	169,554	142,596
Capital projects	1,201,839	447,566	862,900	1,462,254
Total	\$ 10,615,233	9,328,406	9,594,277	10,915,597

See accompanying independent auditor's report.

Shelby County

Schedule 6

Shelby County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative			
Reimbursements:			
State Administrative Matching Grants for			
Food Stamp Program	10.561		\$ 5,514
Hungry Canyons Alliance:			
Soil and Water Conservation	10.902	03-1-F	95,982
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block			
Grants/State's Program	14.228	02-CF-013-99	381,752
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	403-HBRRS-012	303,445
Highway Planning and Construction	20.205	403-HBRRS-028	293,332
			596,777
Iowa Department of Public Defense:			
Homeland Security Division:			
Interagency Hazardous Materials Public Sector			
Training and Planning Grant	20.703	CERT	1,949
Interagency Hazardous Materials Public Sector			
Training and Planning Grant	20.703		2,101
Iowa Department of Public Health:			
Interagency Hazardous Materials Public Sector			
Training and Planning Grant	20.703		13,175
			17,225
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Public Health and Social Services Emergency Fund	93.003	5884EM78	10,101
Centers for Disease Control-Investigations and			
Technical Assistance	93.283	5883BT181	1,547
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		7,152
Refugee and Entrant Assistance - State			
Administered Programs	93.566		24
Child Care Mandatory and Matching Funds			
of the Child Care and Development Fund	93.596		1,305
Foster Care - Title IV-E	93.658		3,270
Adoption Assistance	93.659		869
Medical Assistance Program	93.778		7,178
Social Services Block Grant	93.667		4,703
Social Services Block Grant	93.667		41,831
			46,534

Shelby County
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Homeland Security Division:			
State Domestic Preparedness Equipment Support Program	97.004	ODP-2003-83	5,197
Emergency Management Performance Grants	97.042	EMPG	39,428
Emergency Management Performance Grants	97.042	CERT	2,874
			<u>42,302</u>
State and Local All Hazards Emergency Operations Planning	97.051		26,825
Total			<u><u>\$ 1,249,554</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Shelby County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Shelby County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Shelby County:

We have audited the financial statements of Shelby County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shelby County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

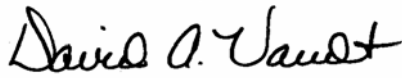
Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-04 and IV-K-04.

Internal Control Over Financial Reporting

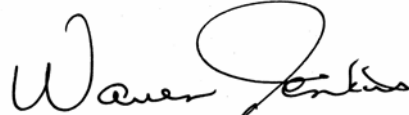
In planning and performing our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Shelby County and other parties to whom Shelby County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Shelby County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 16, 2004

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Shelby County



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Officials of Shelby County:

Compliance

We have audited the compliance of Shelby County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. Shelby County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Shelby County's management. Our responsibility is to express an opinion on Shelby County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shelby County's compliance with those requirements.

As described in item III-A-04 in the accompanying Schedule of Findings and Questioned Costs, Shelby County did not comply with requirements regarding subrecipient monitoring that are applicable to its Community Development Block Grants/State's Program. Compliance with such requirements is necessary, in our opinion, for Shelby County to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Shelby County did not comply, in all material respects, with the requirements referred to above that are applicable to the Community Development Block Grants/State's Program for the year ended June 30, 2004.

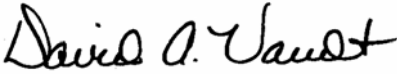
Internal Control Over Compliance


The management of Shelby County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shelby County's internal control over compliance with requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Shelby County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Shelby County and other parties to whom Shelby County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 16, 2004

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinion were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were identified.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was noted.
- (e) An adverse opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grant/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Shelby County qualified as a low-risk auditee.

Shelby County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE AND REPORTABLE CONDITION:

CFDA Number 14.228: Community Development Block Grants/State's Program

Pass-through Agency Number: 02-CF-013-99

Federal Award Year: 2004

U.S. Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

III-A-04 Subrecipient Monitoring – Shelby County passes funds received to West Central Development Corporation. The County's contract with the Iowa Department of Economic Development states it will review all requests for payment, verify all claimed expenditures are allowable and maintain supporting documentation.

The contract also states local funds must be contributed to the project once two-thirds of the grant amount has been drawn down. This is to be documented in the requests for payment/activity status reports sent to the Federal agency requesting funds. The inclusion of these reports is to be monitored by the County.

These requirements are not being met by Shelby County.

Recommendation – The County should implement procedures to ensure it is complying with the requirements of the contract with the Department of Economic Development concerning the performance of subrecipient monitoring of amounts awarded to West Central Development Corporation.

Response – We were not aware of this requirement. In the future, if we are involved in these kinds of grants, we will set up some kind of monitoring program.

Conclusion – Response accepted.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004, except as follows:

<u>Office</u>	<u>Depository</u>	<u>Maximum Authorized Deposit</u>
County Treasurer	Shelby County State Bank	\$ 10,000,000

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response – The maximum amount for Shelby County State Bank was increased as soon as this was brought to the County Treasurer’s attention.

Conclusion – Response accepted.

IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

Disbursements in certain departments exceeded the amounts appropriated.

Recommendation – The Board of Supervisors should insure appropriation amendments are properly prepared and the amendments are made before disbursements are allowed to exceed the appropriation.

Response – When we get to the end of the fiscal year, it is very hard to control these last minute expenditures. Some usually come up “after” we have completed our budget amendment. We will continue to monitor the department expenditures as closely as we can.

Conclusion – Response accepted.

IV-C-04 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-E-04 Business Transactions – Business transactions between the County and County officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Greg Boyson, Roadside Management Employee, Salesperson for Heuss Distributing, Inc.	Chemicals for Roadside Management Department, per bid	\$ 4,476

This does not appear to represent a conflict of interest since the transaction was competitively bid in accordance with Chapter 331.342(4) of the Code of Iowa.

- IV-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of surety bond coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- IV-G-04 Board Minutes – Although minutes of Board proceedings were published, certain minutes were not published within the time period required by Chapter 349.18 of the Code of Iowa.

Recommendation – The County should ensure minutes are published as required.

Response – We will contact the local newspapers and tell them that the Board minutes need to be published in a timely manner.

Conclusion – Response accepted.

- IV-H-03 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.

- IV-I-03 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

- IV-J-04 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

Although, a resolution naming official depositories has been adopted by the Agricultural Extension Council, the maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

There is a lack of segregation of duties over the handling of cash receipts and checks are not immediately restrictively endorsed.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at approved depositories should be adopted by the Extension Council in a timely manor.

Also, there should be proper segregation between those handling, recording, and reconciling receipts and all checks received should be immediately restrictively endorsed.

Response – A new resolution in the amount of \$150,000 for maximum deposit amounts has been approved by the County Extension Council. This resolution is an increase of \$30,000 from the previous amount and should provide ample coverage for deposits in official depositories. All deposit slips will be checked and initialed by a second party once they are prepared for deposit. All checks received are now being restrictively endorsed.

Conclusion – Response accepted.

IV-K-04 Tax Increment Financing (TIF) – The County receives TIF revenues from the City of Harlan pursuant to a 28E agreement between the County and the City. According to the 28E agreement, the County is to receive an amount equal to thirty percent of the City's tax increment financing property valuation multiplied by the total County tax levy. The purpose of the agreement is to enhance economic development. Also, according to the 28E agreement, the County Board of Supervisors has responsibility as to the final decision of how to spend tax increment funds. The 28E agreement states, in part:

“funds shall be spent only to purchase, rent, acquire, construct, repair, maintain or improve county buildings, equipment, facilities or grounds, to pay debts incurred by Shelby County for the foregoing purposes, or to establish or increase a capital reserve fund for the foregoing purposes.”

The County deposits these funds in the General Fund and disbursements of the funds are not accounted for separately.

Recommendation – Chapter 403 of the Code of Iowa provides that TIF funds may only be spent in accordance with the original purpose of the TIF plan within the designated urban renewal area. The County's expenditures for economic development must be consistent with the City's TIF plan within the

Shelby County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

City's designated urban renewal area. The County should maintain documentation to demonstrate compliance with the receipt and related expenditure requirements for TIF revenues.

The County should consult with the City and legal counsel to determine whether the 28E agreement, including the specified use of the TIF revenue, is in compliance with the requirements of Chapter 403 of the Code of Iowa. TIF revenue may not be used to supplement the General Fund.

Response – We have revised our 28E Agreement with the City of Harlan and will take all future expenditures of these funds to the “TIF Committee” and the Harlan City Council for approval.

Conclusion – Response accepted.

IV-L-04 County Sheriff – The Sheriff traded county vehicles in exchange for a credit with a supply and equipment vendor. These credits were later used to purchase law enforcement items without running through the County budget, appropriations and disbursement process as required by Chapter 331.506 of the Code of Iowa and were not filed and properly audited by the Board of Supervisors before payment in accordance with Chapters 331.504(7) and (8) of the Code of Iowa.

Recommendation – County vehicles should not be traded for vendor credits. The proceeds from the sale of county vehicles should be remitted to the County Treasurer for deposit and any expenditures for supplies or equipment should be charged to the appropriate expenditure account and run through the process for issuance of warrants as specified by the Code of Iowa and the Uniform Chart of Accounts for County Governments in Iowa. Expenditures should be subject to budget and appropriation restraints as required by the Code of Iowa.

Response – Proceeds from selling county vehicles will be remitted to the Shelby County Treasurer for deposit and any expenditures for supplies or equipment will be charged to the appropriate expenditure account and run through the process for issuance or warrants as specified by the Code of Iowa.

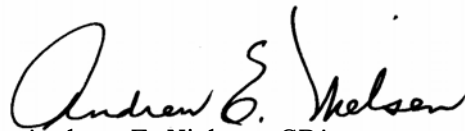
Conclusion – Response accepted.

Shelby County

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager
Gina L. Cunningham, CPA, Senior Auditor
Jedd D. Moore, Staff Auditor
Dustin S. Boxa, Assistant Auditor
Candice R. Meester, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State